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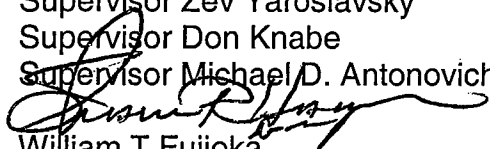
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Fifth District

September 15, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

State Budget Update

Three months past the June 15th Constitutional deadline for the Legislature to pass the budget, Legislative leaders held a press conference yesterday to announce that they have reached a compromise agreement on the FY 2008-09 State Budget. The Senate and the Assembly have scheduled floor sessions which began at 4:00 p.m. today to consider **AB 1781**, the Conference Committee Budget, and companion bills which will contain provisions related to the budget compromise. None of the companion bills are available in print. The Governor's position on this proposal is unknown at this time.

While details of the compromise agreement were not available as of 5:00 p.m., according to the Sacramento advocates and various news accounts, the final budget plan does not address the State's ongoing structural budget deficit. It relies heavily on temporary solutions such as the acceleration of certain personal and corporate income tax payments affecting taxpayers making quarterly estimated tax payments, increased withholding for some higher income joint income tax filers with capital gains, and suspension of the Net Operating Loss for corporations for FY 2008-09. The plan also reportedly includes implementation of a tax amnesty program and modernization of the State lottery to permit borrowing against future revenues. The compromise does not call for tax increases and it does not include borrowing from local governments pursuant to the provisions of Proposition 1A of 2004, and Proposition 42 of 2002.

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Other major components anticipated to be included in the proposed budget compromise are:

- **Budget Curtailments.** The compromise proposal recommends reductions adopted by the Budget Conference Committee plus an additional \$2.0 billion in budget cuts included in the Governor's August Compromise proposal, as reported in the Sacramento Update of August 21, 2008, for a total of over \$9 billion in spending reductions in the budget year.
- **Lottery Securitization.** This compromise proposal would require a ballot measure to modernize the State lottery and securitize future proceeds.
- **Rainy Day Fund.** The compromise proposal would increase the size of the Budget Stabilization Account (BSA), which was established by the California Balanced Budget Act of 2004 (Proposition 58), from 5 percent to 10 percent of General Fund revenues, and it would allow withdrawals from the BSA through a majority vote as long as the transfers are done in a stand-alone bill. In addition, if revenues surpass the Governor's January Budget Forecast, up to 105 percent of this amount will be available for expenditure at the Legislature's discretion and revenues exceeding 105 percent must be spent on meeting the Proposition 98 minimum guarantee, debt repayment and one-time expenditures.
- **Mid-Year Reduction Authority.** Pursuant to the fiscal emergency provisions of Proposition 58, the compromise proposal would authorize the Governor to reduce spending by up to 7 percent from the State operations and capital outlay portions of the State Budget. The Governor also will have authority to pause or hold in abeyance any COLA included in the State Budget for 120 days.

If approved, it is anticipated that the budget compromise will result in a \$1.2 billion shortfall at the start of FY 2009-10.

Pursuit of County Position on Legislation – REVISED POSITION AND STATUS

AB 2X 7 (Wolk), as introduced on July 30, 2008, enacts the Climate Change and Water Resources Protection Act of 2008, which would incorporate climate change information into existing water planning efforts at the State and local level. The bill also would require development of information on the effects of water development alternatives on climate change.

AB 2X 7 would require the California Department of Water Resources (CDWR) to:
1) identify scientific information regarding climate change and water resources by December 31, 2009 for use by State and local agencies and to make the information available on its Internet website; 2) prohibit CDWR from approving a grant request for

specified Proposition 84 bond funds submitted after January 1, 2011, unless the associated Integrated Regional Water Management (IRWM) plan includes certain considerations addressing climate change; and 3) require CDWR, in collaboration with specified State agencies to prepare and submit a report that quantifies and compares the energy savings and greenhouse gas emission reductions associated with water supply development to the Governor, Legislature and make it available to the public by January 1, 2010.

In addition, the bill would require the State Water Resources Quality Control Board and each Regional Water Quality Control Board to consider specified matters related to climate change in the triennial review of applicable water quality standards required by the Federal Clean Water Act. Furthermore, AB 2X 7 would require an urban water supplier, on and after December 31, 2009, and an agricultural water supplier, on and after January 1, 2010, to request climate change information from CDWR and consider that information in preparing urban or agriculture water management plans.

The Department of Public Works (DPW) has reviewed AB 2X 7 and indicates that Proposition 84 makes available \$1 billion in bond funds for the IRWM Grant Program including \$242 million for Los Angeles-Ventura County watersheds (\$215 million for the Los Angeles sub-region and \$27 million for North/South Lahontan which includes the Antelope Valley). The grant guidelines are currently being developed by CDWR, which will require IRWM plans to address climate change based on specified criteria. The Department of Public Works indicates that the requirement to consider certain information on climate change in the IRWM grant application could significantly delay the preparation and updates of IRWM plans, which would delay grant funding for critical water supply projects and adversely affect water service to County residents.

In addition, DPW indicates the bill could require local agencies to implement costly compliance measures as a result of the conditions imposed on the State Water Resources Quality Control Board and each Regional Water Quality Control Board to consider reasonably foreseeable effects on climate change on the water quality of the basin. Furthermore, assessing the very complex impacts of greenhouse gas emissions and climate change on a local purveyor's water supplies would require significant time and resources and this additional cost would have to be passed on to customers in the form of rate increases.

Although DPW and this office have significant concerns regarding the cost of compliance and the lack of scientific data regarding climate control on water supplies, we are supportive of the concept and overall intent of AB 2X 7 and will work with the author to address these concerns. Support for AB 2X 7 is consistent with existing County policy to support AB 32 of 2006, the California Global Warming Solutions Act, and the Board of Supervisors adoption of a resolution to include Los Angeles County in the "Cool Counties Initiative". (This is a revision to our September 3, 2008, Sacramento

Update oppose position based on existing policies.) **Therefore, the Sacramento advocates will support AB 2X 7 in concept, and will work with the author to remedy these concerns.**

AB 2X 7 is supported by the City of Los Angeles Mayor Antonio Villaraigosa. It is also supported by various governmental agencies, environmental groups, and business associations, including: the Metropolitan Water District of Southern California, Association of California Water Agencies, Southern California Water Committee, The Nature Conservancy, Environmental Justice Coalition for Water, Clean Water Action, California League of Conservation Voters, CalCoast, Natural Resources Defense Council and Union of Concerned Scientists. There is no known opposition. This measure passed the Assembly Floor on August 30, 2008 by a vote of 45 to 30, and is currently at the Senate Desk awaiting referral to a policy committee.

Pursuit of County Position on Legislation

AB 3X 35 (Calderon), as introduced on September 5, 2008, would suspend the operation of specified tax incentives for activities conducted in an enterprise zone effective January 1, 2009. The California Enterprise Zone Program targets economically distressed areas using special State and local incentives to promote business investment and job creation.

The Personal Income Tax Law and Corporation Tax Law allow a taxpayer to claim certain tax incentives for activities conducted in an enterprise zone, including: 1) a credit in the amount equal to the sales or use tax paid in connection with the taxpayer's purchase of qualified property used in an enterprise zone; 2) a credit in an amount equal to the specified percentage of wages paid to a qualified employee who is employed by the taxpayer during the taxable year in an enterprise zone; 3) a credit equal to 5 percent of the qualified wages received by the taxpayer during the taxable year for services performed in an enterprise zone; 4) a reduction for net operating losses that are attributable to an enterprise zone; 5) a deduction for an amount equal to net interest received by the taxpayer in payment of indebtedness of a person or entity engaged in a trade or business located in an enterprise zone; and 6) a deduction for a specified percentage of the cost of specified property that the taxpayer elects to be treated as an expense that is not chargeable to a capital account.

AB 3X 35 would suspend the operation of those tax incentives for taxable years beginning on or after January 1, 2009. The Community Development Commission (CDC) indicates that Los Angeles County applied for and received an Enterprise Zone designation jointly with the City of Los Angeles. The Los Angeles County/City Enterprise Zone covers unincorporated East Los Angeles and the eastern portion of the City of Los Angeles. The combined County/City Enterprise Zone serves 8,688 commercial businesses and 2,940 industrial businesses by providing jobs to thousands

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of families. The CDC indicates this bill would effectively end the California Enterprise Zone Program if passed.

The Community Development Commission and this office oppose AB 3X 35. Opposition is consistent with existing County policy to support legislation that will preserve, expand and extend designations for the California Enterprise Zone Program for urban areas and will protect the County's fiscal base and revenues. **Therefore, the Sacramento advocates will oppose AB 3X 35.**

Support and opposition to AB 3X 35 is currently unknown. This measure is currently at the Assembly Desk awaiting referral to a policy committee.

We will continue to keep you advised.

WTF:GK:ML
MR:IGA:lm

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations